1994 ANNUAL REPORT

ISP

International Specialty Products is one of the world's premier specialty chemicals companies. The Company has approximately 2,400 employees at more than 70 locations, including manufacturing facilities, research laboratories, and sales and customer service offices throughout the world, serving customers in 89 countries.

The Company manufactures four major groups of products – specialty derivative chemicals, mineral granules, filter products and advanced materials – holding a significant market share in each of these principal product groups.

ISP produces more than 300 specialty derivative chemicals, which have a broad range of applications, encompassing such markets as pharmaceuticals, hair and skin care, plastics, agricultural, coatings and adhesives. The Company's products, while often representing a relatively small portion of customers' production costs, generally constitute key ingredients in the end products in which they are used. The business is characterized by an emphasis on technology, research and development, marketing and customer service. The Company believes it has been able to sustain its market share positions for its specialty derivative chemicals by establishing and maintaining long-term relationships with its customers and working closely with them to develop chemicals tailored to their specific needs.

ISP's mineral products business manufactures ceramic colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company's granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection, and increased weight.

The Company manufactures filter products, consisting of pressure filter vessels, filter bags and filter systems designed for the treatment of process liquids primarily in the paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries.

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders which are used in a variety of advanced technology applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical and food and beverage industries.

ISP's stock is traded on the New York Stock Exchange under the symbol "ISP".

Financial Highlights

(Thousands, except per share amounts)	**1994**	1993	1992
Net sales	**$ 600,047**	$ 548,252	$ 570,757
Operating income	**$ 99,245**	$ 65,091	$ 107,664
EBITDA [1]	**$ 147,313**	$ 116,916	$ 155,693
Income before income taxes, extraordinary item and cumulative effect of accounting change	**$ 72,484**	$ 49,823	$ 85,782
Income before extraordinary item and cumulative effect of accounting change	**$ 45,752**	$ 29,558	$ 57,182
Net income	**$ 44,515**	$ 29,558	$ 50,113
Earnings per common share: Income before extraordinary item and cumulative effect of accounting change	**$ .46**	$ .30	$ .57
Net income	**$ .45**	$ .30	$ .50

[1] EBITDA represents earnings before income taxes, extraordinary item and cumulative effect of accounting change, increased by interest expense, depreciation and goodwill amortization.

Contents

Fellow Shareholders:

1994 was a significant turnaround year for ISP, one in which the Company not only increased its operating income by more than 25% compared with 1993 but began to register more consistent quarterly operating results, with four consecutive quarters of increased year-to-year operating income. More importantly, as a result of a significantly improved managerial performance at all levels of the Corporation, as well as favorable industry trends affecting a number of the Company's businesses, ISP entered 1995 with considerable forward momentum, thereby enabling us to look forward, barring unforeseen events, to continued double-digit increases this year in operating income and earnings per share, and quite possibly in sales as well.

Samuel J. Heyman

1994 Financial Results

For the 12-month period ended December 31, 1994, income, before extraordinary charges of $1.2 million (one cent per share) relating to the refinancing of the Company's bank debt, was $45.8 million (46 cents per share) compared with $29.6 million (30 cents per share) in 1993.

1994 operating income was $99.2 million, an increase of more than 25% over 1993's $78.9 million (prior to a $13.8 million charge) with sales for the year reaching $600 million, a 9.4% increase over sales of $548.3 million in 1993. Higher 1994 results were attributable to increased sales, especially with respect to specialty derivative products, and lower selling, general, and administrative expenses, partially offset by lower gross profit margins due principally to sharply escalating raw materials costs in the fourth quarter.

Operating income in both 1994 and 1993 was reduced by noncash charges of $21.9 million and $22.4 million, respectively, resulting from goodwill amortization ($13.4 million in 1994 and $13.9 million in 1993) and stepped-up depreciation ($8.5 million in both periods), associated with the acquisition of the Company's parent, GAF Corporation, in a 1989 management-led buyout. Without such noncash charges, operating income would have been $121.1 million and $101.3 million for 1994 and 1993 (prior to the $13.8 million charge), respectively.

Given the magnitude of the Company's noncash charges, we are presenting for the first time in this Annual Report EBITDA (EBITDA represents earnings before income taxes, extraordinary item and cumulative effect of accounting change, increased by interest expense, depreciation and goodwill amortization) data on a current and historical basis, which we believe serves as a helpful tool for investors in assessing ISP's financial performance. In this connection, EBITDA for 1994 was $147.3 million compared with $130.7 million in the prior year (prior to the $13.8 million charge).

Significant Developments

There were a number of developments this past year which not only contributed to the Company's improved performance but promise to play a meaningful role in what we expect will be an even better year in 1995: a marked improvement in competitive conditions in the intermediates and solvents business; increased geographic penetration of ISP's specialty derivatives business around the world; an aggressive new product and application development program which enabled ISP last year to come to market with more than thirty new products and applications; continued cost containment efforts with particular emphasis this past year on process improvements and other manufacturing cost reductions; and the strengthened financial position of the Company as a result of the refinancing of ISP's $400 million revolving credit facility on more attractive terms, together with the continued reduction of both the Company's total debt and its ratio of net debt-to-total-capitalization (now less than 37%).

(1) Improved Competitive Conditions For Intermediates and Solvents Business

1994 marked a dramatic improvement in the severe competitive conditions which have adversely affected the Company's intermediates and solvents business since a new, aggressive competitor entered the field in 1991. Between that time and mid-1994, it had succeeded in not only taking market share from both ISP and our traditional competitor, BASF, but so also severely disrupting prices in the process. But now, as a result of improved worldwide demand for our intermediates and solvents products coming principally, with respect to intermediates, from PBT engineering plastic producers for an increasingly widening range of both automotive and electrical component applications and, as for solvents, increased demand for a number of existing and new applications, together with a very strong regulatory and customer-driven trend to replace chlorinated, and other volatile, solvents with ISP's safer solvent, N-methyl pyrrolidone (NMP), industry-wide capacity utilization rates for these products have substantially increased versus year-ago levels. As a result, while butanediol (B1D) and NMP prices had declined fairly substantially from the beginning of 1992 to mid-1994, higher capacity utilization rates, together with substantial raw materials price increases, have enabled the Company to implement worldwide price increases, establishing B1D prices at levels not seen in quite some time and reversing a significant portion of the previous decline in NMP prices. Moreover, further worldwide price increases for both B1D and NMP are now being implemented in the second quarter.

Finally, demand for the Company's intermediates and solvents products is expected to continue to increase over the balance of the year. And while competitive conditions in 1996 and beyond will depend in large measure on future worldwide demand for our customers' end-use products, we expect that the trends so plainly apparent last year could well continue for some time to come.

(2) Geographic Expansion

An important development last year, which I believe augers well for the growth of our Company in 1995 and beyond, is the continued emphasis of ISP's specialty derivatives business on increased geographic penetration, with particular focus on the Asia-Pacific and Latin American regions, where sales increased over 1993 levels by 11% and 34% and operating income by 23% and 46%, respectively.

In order to further the geographic expansion of ISP's specialty derivatives business, the Company opened last year new sales and marketing operations, and/or added to the Company's existing presence where it could increase market penetration, in more locations than in any comparable period in the history of our business, with operations having been opened anew or substantially augmented in Beijing and Guangzhou, China; Moscow; Buenos Aires; Bombay; and Warsaw. In addition, with the lifting of the Administration embargo last February, ISP began sales early last year in Vietnam. Moreover, the Company expects to open new offices this year in Caracas, Venezuela, Jakarta, Indonesia, and Chengdu, China.

ISP is increasing its geographic penetration throughout the world not only with the opening of new sales and marketing operations but so also as a result of the increased specialization of our sales force along industry lines, the hiring of additional technical staff to assist the Company's sales force, and a substantial increase this past year in ISP's sales staff, with the United States and international sales forces up by 7% and 12%, respectively. With the opening of three new offices in 1995 and plans to increase the Company's existing presence in other areas where there are opportunities for greater market penetration, further additions to ISP's sales force will take place in 1995.

(3) New Products and Applications

ISP continued this past year its aggressive new product and application development program, which effort should play a part in what we expect will be a year of strong sales growth in 1995.

Carl R. Eckardt, President and Chief Operating Officer

The Company has been particularly active over the last year in the continued development of its already extensive product line for the hair care industry, where we think we have particularly attractive opportunities because of ISP's emphasis on environmentally-friendly chemicals. In this regard, the Company has been involved over the past several years in an intensive effort to tailor its family of products for the hair care industry so as to enable its customers to meet stringent regulatory requirements mandating reduction of volatile organic compounds (VOCs), while at the same time improving the performance characteristics of these products in order to satisfy consumer preferences. To this end, ISP introduced last year a number of new products and applications for the hair care industry, including the following:

Gantrez® A-425, an optimized, molecular weight hair spray polymer, which, while satisfying 80% VOC requirements, enhances the performance characteristics of our current Gantrez® products and provides for formulations covering a wide range of desired properties from natural to stiff feel, so as to appeal to different consumer styles which tend to vary from one region of the world to another; Gafquat® HSi and PVP/Si-10 silicone encapsulate products, which combine ISP's Gafquat® and PVP products with silicone to provide a silky feel for use in hair conditioners, shampoos, and mousses; and Hold EP1, a versatile polymer for use in low VOC or alcohol-free formulations for hair sprays, mousses, and gels and designed so as to satisfy a preference on the part of certain consumers.

So also, the Company developed this past year the next generation of ISP's very successful Gafquat® product, a hair fixative and shampoo conditioner which provides even better holding characteristics and improved conditioning properties, and it is expected that the product will be launched this year.

In addition to new products for the hair care industry, ISP introduced last year a whole host of other new products and applications for use in the cosmetics, skin care, household, industrial and institutional cleaners, agricultural, and oil and gas industries, examples of which include the following:

Stabileze® QM, a quick mix viscosity enhancing polymer that provides desired controlled thickening properties in skin and hair care formulations; PVP K-30A, a cosmetic grade PVP specifically designed for skin care use in mascara and eye liners; Cerasynt® IP-V and Cerasynt® SD-V, vegetable-based emulsifiers for hair and skin care; a family of PVP anionic copolymers, with applications for a variety of personal care, specialty industrial coatings, and household, industrial, and institutional cleaner uses; and a family of agricultural adjuvant products, utilizing ISP's new proprietary microemulsion technology, providing pesticides and other related agricultural chemicals with greater adherence, thereby improving performance and reducing environmental risk.

Prospects For 1995

While we were certainly disappointed with the Company's '92-'93 performance and look back upon this now as a helpful "wake-up call", we are very encouraged by the progress we made in 1994 although the Company's results, we believe, have not yet begun to reflect the growth and profit potential of ISP's businesses. While the Company made progress on the operating margin line this past year, one of our principal objectives in 1995 will be gross margin improvement which we expect to achieve as a result of improved pricing, increased manufacturing efficiencies, and the sale of new products and applications carrying higher profit contributions.

As a result of the significant steps the Company took last year, we entered 1995 with positive forward momentum. In short, we feel good about ISP's prospects for 1995, and while we are not in the habit of making earnings predictions, we would be disappointed if the Company's results this year did not comfortably exceed record '91 earnings and, at the least, approach record '91 operating income (the Company having registered in 1991 $50.6 million in earnings and $121.9 million in operating income).

Acknowledgments

The true test of the mettle of any organization is not how well it does when everything is going well but rather how it performs when the chips are down and its business is not performing in accordance with expectations. In this respect, 1994 was a critical year for our Company and its management, and there can be little doubt that the improved performance of our employees at virtually every level of the Company contributed in no small measure to ISP's turnaround this past year. As Chief Executive, I am extremely proud of the accomplishments of Carl Eckardt, ISP's President and Chief Operating Officer, his management team, and indeed of all our people. Moreover, I consider myself fortunate to be associated with so many hard working, dedicated, and loyal employees who approach their responsibilities and share the objectives of ISP's senior management with such an extraordinary degree of intensity.

Not only am I delighted that these pages afford me the opportunity to thank our employees for their efforts this past year, but I would also express my appreciation to:

- ISP's customers, upon whose business we depend, whose longstanding loyalty we appreciate, and for whom we at ISP constantly strive to reciprocate in our dedication to providing products of the highest quality at the most competitive prices.
- ISP's Board of Directors for their steadfast support and counsel and for their policy decisions which have contributed to steering a proper course for the Corporation and providing a framework for management.
- ISP's outside professionals, in legal, financial, accounting, consulting, and other related capacities who by alacrity of response, commitment to our principles and viewpoint, and cooperative endeavor have made important contributions in areas critical to the well-being of our Corporation.

ISP's Board of Directors approved last December the open market repurchase of up to 1½ million shares of the Company's common stock. While the repurchased shares will be held for general corporate purposes, the program was intended as well as an expression by our Board not only of its confidence in the future of our Company but so also its belief that our shares remain undervalued in the market.

We look forward to reporting to you in the coming year ISP's continued progress.

Sincerely,

Samuel J. Heyman
Chairman of the Board
and Chief Executive Officer

April 5, 1995

International Specialty Products is one of the world's premier specialty chemicals companies with a broad line of specialty products, including specialty derivative chemicals, mineral products, filter products, advanced materials, and fine chemicals. The Company has 17 domestic and international manufacturing facilities, including a joint-venture company in Germany, GAF-Hüls Chemie GmbH, and markets its products in 89 countries throughout the world.

Specialty Derivative Chemicals

ISP manufactures more than 300 specialty derivative chemicals having numerous applications in consumer and industrial products. The Company uses proprietary technology to convert a number of raw materials, through a chain of one or more processing steps, into increasingly complex and higher valued derivatives to meet specific customer requirements. The Company's specialty derivative chemicals, which include intermediates, solvents, vinyl ethers, and polymers, are derived primarily from acetylene, and the Company believes it produces the broadest line of acetylene derivatives available in the world. ISP is also a major producer of cosmetic and industrial preservatives through its Sutton Labs, and skin care products including sunscreen intermediates, emollients, and pearlescent pigments through its Van Dyk business.

ISP's specialty derivative business is organized by end-use industries into three worldwide, market-oriented business units: Personal Care; Pharmaceutical, Agricultural, and Beverage; and Industrial.

Personal Care

ISP produces a wide range of products for the personal care industry, providing thousands of well-known hair care, skin care, toiletry and cosmetic products with their high performance characteristics. For example, the Company is a leading manufacturer of hair fixatives through its Gantrez®, Gafquat®, and PVP/VA family of products, which provide hairsprays, mousses, and gels with their strong hair holding power.

ISP's state-of-the-art laboratory in Wayne, New Jersey, which includes elaborate facilities for direct consumer testing of hair care products, has played an important role in the development of several significant new products. Last year, the Company introduced Gantrez® A-425, an optimized molecular weight high performance hair spray additive which enables manufacturers to meet strict regulatory requirements involving reduction of volatile organic compounds (VOCs), and in 1995 the Company plans to launch the next generation of Gafquat®, its flagship non-spray fixative used as the holding ingredient in mousses, and as a conditioner in shampoos, which it expects will achieve superior hold and better conditioning properties than original Gafquat®.

Through the development of several important new products and the acquisition of the Van Dyk personal care business, ISP has significantly strengthened its presence in the skin care market and now provides an extremely broad range of products, including ultraviolet absorbers, waterproofing agents, pigments, emollients and emulsifiers, for use in hundreds of skin care applications. Late last year, ISP entered into a marketing alliance with United Guardian through which ISP has obtained exclusive rights to market a line of personal care products manufactured by United Guardian, in the Asia-Pacific region, Eastern Europe and selected countries in Western Europe. The product line includes Lubrajel, a water soluble lubricant and moisturizer used in a full range of skin care and related pharmaceutical applications.

ISP's Sutton Labs produces specialty preservatives, which are marketed worldwide primarily to the cosmetics and personal care industries for use in hair and skin care products, bath and shower, baby, eye makeup, facial makeup and after-shave preparations, and nail products.

Sales of Sutton products have increased significantly since ISP acquired the company six years ago, with Sutton's growth having been primarily fueled by expansion of its overseas business. Over the last several years, the Company has commercialized LiquaPar® Oil, a unique liquid preservative, whose effectiveness and ease of use has ensured the success of this product in a broad range of biocide applications; and the Integra® family of industrial preservatives designed for use in liquid laundry detergents, fabric softeners, dishwashing liquids, wet pulp processing, and water-based paints and coatings.

Pharmaceutical, Agricultural, and Beverage

ISP's products for the pharmaceutical, agricultural, and beverage industries provide superior performance characteristics for a substantial number of end-use products while enabling them at the same time to meet increasingly strict worldwide regulatory requirements.

In the pharmaceutical area, ISP products serve as key ingredients in tablets, injectables, cough syrups, antiseptics, toothpaste, denture adhesives and other oral preparations. ISP's Polyplasdone® excipients function as both the binding agent to hold pharmaceutical tablets together and disintegrants which help release the active ingredient in a controlled manner. Sales of Polyplasdone® and Plasdone® excipients continued their strong growth in 1994 as a result of increased penetration of new and existing geographic markets as well as the wider use of these products in generic drugs. Moreover, the Company has several research and development projects currently underway in the areas of direct compression tableting and innovative delivery systems such as transdermal patches.

ISP is a leading producer of inert ingredients for the agricultural industry, where the Company's solvent and polymer products are used for the formulation of safer and more effective agricultural applications. ISP's Agrimer® family of polymers and copolymers are, for example, integral components in formulations such as granules, tablets, and seed coatings, which serve not only to make these formulations safer and more effective but so also reduce the amount of pesticide required for effective pest control. Two surface active solvents which display unique surfactant properties, AgsolEx® 8 and AgsolEx® 12, received EPA approval in 1994 and enjoyed substantial first year sales.

ISP has been a major participant in the beverage industry for many years, where ISP's leading product, Polyclar®, serves the function of ensuring the quality, and extending the shelf life, of beer, wine, and fruit juices. Polyclar® Super R has achieved a high level of customer acceptance for its effectiveness in not only extending the useful life of the end-use product but reducing filtration times. The Company anticipates receiving Japanese regulatory approval in 1995 for use of Polyclar® in Japan's beer industry, thereby promising to open a significant new market for the Company.

Industrial

ISP's specialty derivatives business produces numerous specialty polymers and vinyl ethers for use in a wide range of industrial markets, such as coatings, adhesives, electronics, and metal working, in addition to intermediate and solvent products such as butanediol and N-methyl pyrrolidone (NMP), whose primary applications are for use in high performance plastics, lubricating oil and chemical extraction, electronics cleaning, and coatings.

The Company continued last year to increase its penetration of the household, industrial and institutional cleaning market, especially in the European and Asia-Pacific markets, with sales of its Gaftex® polymers growing substantially as a result of an application using Gaftex® as a dye transfer inhibitor in laundry detergents to prevent the deposition of fugitive colors in mixed color washes. The Company is also developing several new industrial applications for its versatile product line, including an application for the next generation of high density television screens and computer color monitors, where the Company's PVP polymers provide coatings for sharper, clearer images.

ISP has brought to the market over the past several years a family of new environmentally-friendly products, known as Engineered Solvents, to replace chlorinated and other volatile solvents, for use in a variety of industries for cleaning, stripping and degreasing. The product line includes, for example, formulated products especially designed for cleaning applications, such as ShipShape® for fiberglass boat manufacture, PrintSolve® for graphic arts, FoamFlush® for polyurethane foam molders, Partsprep® for metal degreasing, and Micropure® CDF, an ultra pure solvent used in the semi-conductor industry. Increased demand for ever more sophisticated integrated circuits and semi-conductors has spurred demand for more pure forms of solvents, such as ISP's Micropure®. Sales of the Company's Engineered Solvents continued to increase this past year, and are expected to grow at even higher rates as regulatory requirements affecting chlorinated solvents become ever more stringent.

Mineral Products

ISP's mineral products business manufactures ceramic colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company is one of only two major suppliers of colored roofing granules in North America, with its mineral roofing granules being sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection, and increased weight.

Mineral products sales have benefited from an industry trend toward the increased use of heavyweight, three-dimensional laminated roofing shingles, which require approximately 60% more granules than traditional three-tab lightweight roofing shingles. To meet anticipated increased demand, the Company last year completed a significant capacity expansion at its production facility in Blue Ridge Summit, Pennsylvania.

ISP's mineral products business is one of the nation's leading producers of a fine granular material, ISP Original Fast Dry™, the same material having been formerly marketed by an ISP customer under the name "Har-Tru®", for use in the construction of fast dry, clay-like tennis courts. The Company has been for many years the major supplier of this tennis court material in the northeastern region of the United States and is now in the process of expanding its market coverage to the southeastern part of the country as well.

Filter Products

ISP's filter products business produces complete filter systems, under the name "GAF Filter Systems", consisting of pressure filter vessels and filter bags designed for the treatment of process liquids primarily in the paint, automotive, chemical, pharmaceutical, petroleum, municipal water, and food and beverage industries. ISP is a leading worldwide supplier of bag filtration equipment, and its strategy over the past several years has been to develop new, higher value-added bag filtration products, expand its share of the filter vessels market, and increase the geographic penetration of its business in the United States as well as the Asia-Pacific and Latin American regions of the world.

The Company expanded in 1994 its worldwide manufacturing presence with the acquisition of a Canadian based manufacturer of filter hardware, expansion of its production capacity at its plant in Sao Paulo, Brazil, and the establishment of a manufacturing facility in Singapore for bag filtration products.

The Company has been one of the most innovative leaders in the bag filtration industry in terms of the introduction of higher value-added bag filtration products, having recently developed the Accurate® 1 absolute micron rated, high efficiency bag filter, which accommodates higher flow rates and has a longer service life than equivalent-rated cartridge filters. The Accurate® 1 product is gaining wide acceptance in such diverse liquid filtration applications as paints and coatings; beer, vinegar and edible oils; and a wide variety of process chemicals. The Company has also recently introduced a new range of POXL™ and PEXL™ Extended Life Filter bags, which helps its customers to substantially reduce their costs through waste minimization, reduced maintenance, and the extension of useful filter life. These new products offer significant growth potential for ISP's filters business, as they satisfy the needs of its customers for cost effective filtration and waste disposal minimization.

Advanced Materials

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders, sold under the Company's trademark, Micropowder®, for use in a number of applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical, and food industries. In addition, the Company's FDA-approved

Ferronyl® iron has been widely accepted as an iron supplement in multi-vitamins and other pharmaceutical products and is widely regarded by medical experts as safer for these uses than iron salts.

ISP's Advanced Materials business markets a growing range of unique and innovative products, including RAD-SURE®, radiation-sensitive labels which indicate whether hospital blood bags have been properly irradiated; DOSE-MAP®, a product for measuring the radiation distribution of blood devices, and PERM® and GAFCHROMIC® processless electron recording films for a variety of instant imaging, data recording and medical dosimetry applications. Using its unique processless film technology, ISP's Advanced Materials Group teamed with E-Systems Inc. last year to win an important government contract for the development of a novel ultraviolet imaging system. The ISP approach was preferred over technologies proposed by several major film companies.

Fine Chemicals

ISP Fine Chemicals produces a variety of fine chemicals sold to pharmaceutical, biotechnology, agricultural, and performance polymers businesses. Its broad range of products includes bulk pharmaceuticals, pharmaceutical intermediates, biological buffers used by biotechnology companies in tissue culture media for the production of new pharmaceuticals, and pheromones, insect attractants and sex hormones.

This line is produced at the Company's technologically sophisticated, custom manufacturing facility located in Columbus, Ohio. This highly versatile manufacturing facility provides custom processing capabilities for complex chemical reactions and is being expanded to increase capacity for bulk drugs and pharmaceutical intermediates.

International Operations

As a result of the Company's continued penetration of existing overseas markets and expansion into new ones, ISP's international sales have grown at an average annual compounded rate of more than 15% over the past ten years and now constitute more than 60% of the Company's total specialty derivative sales. This has been accomplished by means of the development of an experienced, technically trained direct sales force, through the opening of new marketing and sales offices in a number of countries in recent years, including Argentina, China, Hungary, India, Poland, Russia, and Taiwan, and by exporting into countries without sales offices such as Chile, Columbia, Indonesia, Israel, the Philippines, and Vietnam.

Virtually all ISP's specialty derivative chemical and filter product lines are now sold internationally, and approximately 80% of ISP's revenues outside the United States are currently generated by the Company's own sales force, with the balance of its sales made through a worldwide network of experienced ISP distributors.

Linden Hazardous Waste Facility

ISP's Environmental Services unit received approval in late 1993 from the New Jersey Hazardous Waste Facilities Siting Commission for the construction and operation of a commercial hazardous waste incinerator at the site of its former Linden, New Jersey plant, subject to a number of conditions including the construction of separate ramps leading to and from the New Jersey Turnpike. In April 1994, the Siting Commission requested that the New Jersey Turnpike Authority review the Turnpike issue, and since that time ISP has been involved in ongoing discussions with the Turnpike Authority. The Company is hopeful that it will receive approval some time this year, thereby enabling it to move forward with the next round of the permitting process.

QUALITY AND TECHNOLOGY

Over the last several years, ISO 9002 certification, an internationally accepted hallmark of quality management and assurance, has been attained at three of the Company's principal manufacturing facilities in Calvert City, Kentucky, Chatham, New Jersey, Texas City, Texas, as well as at its affiliate, GAF-Hüls Chemie GmbH in Marl, Germany. In addition, just this past January, the Company received ISO 9002 certification for its Sint-Niklaas, Belgium, filter bag production facility.

ISP intensified the Company's commitment to its Total Quality Management Process effort last year with the development of a comprehensive quality improvement program for implementation throughout the Corporation. The primary focus in 1994 was on enhancing customer satisfaction through a better understanding of the needs of ISP's customers, quickly translating those needs and expectations into rapid delivery, and continuing to improve the quality of its manufacturing and customer service operations. To this end, more than 40 process improvement and breakthrough teams were established at all levels of the Company to address these areas. Although this work is still ongoing, the teams have already succeeded in producing very positive results in terms of improved first pass quality, increased productive capacity, and reduced operating costs as a result of a whole host of operating efficiences. The increases in manufacturing capacity this past year, achieved through debottlenecking and capital projects involving fairly minimal capital, have enabled the Company to defer for another year its plans to build a European manufacturing facility.

ISP's 1995 quality improvement program, while continuing to address the Company's manufacturing processes and the quality of its products, is expanding its focus this year to deal with a broad range of other Company operations and activities as well. In this vein, this year's program is targeting Company operations such as distribution, management information systems, payroll processing, paperwork, etc., as we believe that there continue to be numerous opportunities at ISP for further cost savings, increased efficiency, and improved quality with regard to all aspects of the work effort of our Company and its employees.

Financial Review

Management's Discussion and Analysis of Financial Condition and Results of Operations

1994 Compared With 1993

In 1994, the Company recorded net income of $44.5 million ($.45 per share) compared with net income of $29.6 million ($.30 per share) for 1993. Net income in 1994 includes an extraordinary charge of $1.2 million ($.01 per share) relating to the refinancing of bank debt, while net income in 1993 reflects a retroactive income tax provision of $2.9 million, representing the effect of a 1% increase in the Federal corporate income tax rate on the Company's net deferred tax liability as of December 31, 1992, and a pre-tax provision of $13.8 million primarily related to the Company's cost reduction program announced in October 1993.

The results for 1994 reflected higher operating income (up $34.1 million), partially offset by a $4.2 million increase in interest expense and a reduction of $7.3 million in other income (expense), net.

Sales for 1994 were $600 million compared with $548.3 million for the year 1993. The sales growth reflected increased sales in most product lines, primarily specialty derivative chemicals (up 11%) and filters (up 12%), in all regions of the world, mainly due to higher volumes and, to a lesser extent, a favorable foreign exchange effect of $4.1 million.

Operating income for 1994 was $99.2 million compared with $65.1 million for 1993. The improvement was attributable to increased sales volumes and lower selling, general and administrative expenses, and the absence of the $13.8 million restructuring charge mentioned above, partially offset by lower gross profit margins due mainly to higher manufacturing costs for specialty derivative chemicals (up approximately $8 million primarily as a result of raw material cost increases), and lower operating income from mineral products. Selling, general and administrative expenses for 1994 were $119.7 million, down 5% from 1993, primarily as a result of the Company's cost reduction and productivity programs.

Of the $34.1 million increase in operating income in 1994, domestic operating income increased by $22 million due primarily to higher export sales to all regions, lower operating expenses and the absence of the prior year restructuring charge; operating income from Europe increased by $7.5 million; and operating income from other foreign operations increased by $4.6 million, mainly in the Asia-Pacific region, in each case after giving effect to a portion of the $13.8 million restructuring charge in 1993 mentioned above. See Note 12 to Consolidated Financial Statements.

Interest expense for 1994 was $28.7 million, an increase of $4.2 million from $24.5 million in 1993. The increase was due primarily to higher interest rates and, to a lesser extent, higher outstanding borrowings.

Other expense was $.1 million in 1994 compared with other income of $7.2 million in 1993. The decrease in 1994 was due primarily to lower net investment income (down $6.7 million). See Note 1 to Consolidated Financial Statements.

1993 Compared With 1992

In 1993, the Company recorded net income of $29.6 million ($.30 per share) compared with net income of $50.1 million ($.50 per share) for the year 1992. Net income in 1993 reflects the retroactive income tax provision of $2.9 million and the $13.8 million restructuring charge mentioned above. Net income for 1992 reflects a one-time charge of $7.1 million ($.07 per share), representing the cumulative effect of the change in accounting for postretirement benefits other than pensions, net of a related income tax benefit of $3.9 million.

The 1993 results were impacted by lower operating income (down $42.6 million including the $13.8 million restructuring charge) and by lower earnings of the GAF-Hüls joint venture ("GAF-Hüls") (down $3.9 million), partially offset by a $6.1 million reduction in interest expense and a $4.5 million improvement in other income.

Sales for 1993 were $548.3 million compared with $570.8 million for the year 1992. This sales decrease was primarily attributable to lower sales of mineral products (down 20%) as a result of lower customer demand due primarily to customers lost as a result of increased competition and the absence of storm damage which increased sales in the latter half of 1992, and the adverse effect of a stronger dollar, which impacted sales by $20.2 million. The foregoing factors were partially offset by higher sales of specialty derivative chemicals in the Asia-Pacific region of $12.3 million and the combined incremental sales of the Van Dyk personal care (acquired in March 1992) and the MTM fine chemicals (acquired in February 1993) businesses, which totaled $14.8 million.

Operating income for 1993 was $65.1 million compared with $107.7 million for 1992, with the decrease resulting primarily from the $13.8 million restructuring charge mentioned above, the adverse effect of a stronger dollar, which impacted operating income by $15.6 million, lower operating income from mineral products (down $10.7 million) as a result of the aforementioned sales decline, increased selling, general and administrative expenses, and higher manufacturing costs of specialty derivative chemicals. Such higher manufacturing costs were due to increased production costs (mostly salaries and wages and depreciation related to increased capital investments) coupled with reduced production rates (as the production rate decline which began in the fourth quarter of 1992 and was designed to bring inventories in line with reduced demand continued into the first quarter of 1993).

Of the $28.8 million decrease in operating income in 1993 (before the $13.8 million restructuring charge), domestic operating income decreased by $25.2 million, and operating income from Europe decreased by $7.9 million, while operating income from other foreign operations increased by $4.3 million, mainly in the Asia-Pacific region. The larger decrease in domestic operating income as compared to non-U.S. operating income was primarily due to the higher manufacturing costs for specialty derivative chemicals discussed above, which costs were not allocated to non-U.S. operations.

Interest expense for 1993 was $24.5 million, a reduction of $6.1 million from $30.6 million in 1992. The decrease was attributable to lower interest rates and reduced average outstanding borrowings.

Other income was $7.2 million in 1993 compared with $2.7 million in 1992. The increase in 1993 was due principally to higher investment income, partially offset by higher foreign exchange translation losses and costs related to the sale of accounts receivable.

Liquidity and Financial Condition

During 1994, the Company generated cash from operations of $62.9 million, and reinvested $47.4 million for capital programs and certain securities, for a net cash inflow of $15.6 million before financing activities. Cash from operations in 1994 included $4.4 million in dividends received from GAF-Hüls.

Net cash used in financing activities in 1994 was $35.5 million, principally comprised of an $82.3 million net paydown of the Company's bank credit agreements and a $12.8 million reduction in short-term borrowings, partially offset by $66.3 million of additional borrowings from an affiliate. The Company paid dividends of $5 million ($.05 per share) on its common stock during 1994.

As a result of the foregoing factors, cash and cash equivalents decreased by $19.9 million during 1994 to $62.9 million.

The Company invests primarily in investment programs which are designed to be "market neutral", including international and domestic convertible arbitrage, hedged utility programs, and securities of companies involved in acquisition or reorganization transactions, including, at times, common stock short positions which are offsets against long positions in securities which are expected, under certain circumstances, to be exchanged or converted into the short positions. With respect to its equity positions, the Company is exposed to the risk of market loss. See Note 1 to Consolidated Financial Statements.

On October 5, 1994, the Company refinanced its $400 million revolving credit facility and entered into a new four-year $250 million revolving credit/letter of credit facility and a $150 million renewable one-year revolving credit facility (the "Credit Agreements"). As of December 31, 1994, loans in the amount of $45 million and letters of credit aggregating $8.9 million were outstanding under the long-term Credit Agreement. The Credit Agreements permit the Company to make loans to affiliates and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to $60 million,

G-I_EPA0008799

of which $1.9 million had been utilized as of December 31, 1994.

Borrowings by the Company, including those under the Credit Agreements, are subject to the application of certain financial covenants contained in such agreements and the indenture relating to the Senior Discount Notes due 1998 issued by G-I Holdings Inc. ("G-I Holdings"), the indirect owner of 81% of the Company's common stock. As of December 31, 1994, the Company was in compliance with such covenants, and the application of such covenants would not have restricted the amounts available for borrowing under the Credit Agreements. The Credit Agreements and the indenture relating to the Company's 9% Senior Notes limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. See Note 7 to Consolidated Financial Statements.

As of December 31, 1994, the Company's scheduled repayments of long-term debt for the twelve months ending December 31, 1995 aggregated $.9 million.

In December 1994, the Company announced a program to repurchase up to 1,500,000 shares of its common stock from time to time in the open market. The repurchased shares will be held for general corporate purposes, including issuance of shares under the Company's stock option plan.

The Company intends to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. While the originally anticipated commencement date of the European project has been deferred because of the fact that the Company has been able to implement during the past year cost efficient capacity expansions at its existing manufacturing facilities, the Company intends to proceed with the project as soon as circumstances warrant after taking into account additional opportunities for expansion of existing capacity, end-use demand, and other relevant factors. Costs capitalized to date related to this project are included in "Construction in progress". The Company anticipates utilizing internally generated funds, existing credit facilities and/or independent financing to fund the cost of the project.

Fluctuations in the value of foreign currencies may cause U.S. dollar translated amounts to change in comparison with previous periods and, accordingly, the Company cannot estimate in any meaningful way the possible effect of such fluctuations upon future income. The Company has a policy to manage these exposures to minimize the effects of fluctuations in foreign currencies, including entering into foreign exchange contracts in order to hedge its exposure. See Note 1 to Consolidated Financial Statements.

The parent corporations of the Company, including GAF Corporation ("GAF"), G-I Holdings, G Industries Corp. and GAF Chemicals Corporation ("GCC"), are essentially holding companies without independent businesses or operations and, as such, are dependent upon the cash flow of their subsidiaries, including the Company, in order to satisfy their obligations, including the asbestos-related claims mentioned below and certain potential tax liabilities including tax liabilities relating to Rhone-Poulenc Surfactants and Specialties, L.P. See Notes 3 and 14 to Consolidated Financial Statements. In the event that such parent corporations were unable to meet their cash needs from sources other than the Company, they might take various actions, including, among other things, seeking to cause the Company to make distributions to stockholders by means of dividends or otherwise, to make loans to its parent corporations, or cause GCC to sell shares of the Company's common stock. The Company does not believe that the dependence of its parent corporations on the cash flows of their subsidiaries should have a material adverse effect on the operations, liquidity or capital resources of the Company.

Given the current ownership structure of the Company, the ability of the Company to utilize common stock financings for capital expenditures, acquisitions and other corporate purposes, and the ability of GCC to sell shares of the Company's common stock owned by it, are presently impeded because GCC would be unable to utilize significant tax benefits or to receive tax sharing payments, and significant adverse tax consequences to GCC would occur, in the event that it were to own less than 80%

of the outstanding shares of the Company's common stock. Such tax consequences would be eliminated over time as the Company generates earnings. In light of the foregoing, as well as the current market price of the Company's common stock, GCC has advised the Company that it does not currently intend to dispose of shares of the Company's common stock, and the Company does not currently intend to issue shares of its common stock, such that GCC would own less than 80% of the Company's outstanding common stock.

For information with respect to income taxes, see Note 3 to Consolidated Financial Statements.

The Company does not believe that inflation has had an effect on its results of operations during the past three years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

The Company has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, which designation has been appealed to the Courts by the City of Linden. The Company estimates that the cost of constructing the facility will be approximately $100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources.

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters. See Note 14 to Consolidated Financial Statements for further information.

GAF has advised the Company that as of December 31, 1994, GAF had been named as a defendant in approximately 48,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber and as a co-defendant in 16 pending lawsuits alleging economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises. For further information regarding asbestos-related claims against GAF, see Note 14 to Consolidated Financial Statements.

Selected Financial Data

(Dollars in thousands, except per share amounts)	1994	1993	1992	1991	1990
					Year Ended December 31,
Operating data:					
Net sales	**$ 600,047**	$ 548,252	$ 570,757	$ 525,786	$ 511,652
Operating income	**99,245**	65,091	107,664	121,852	116,764
Interest expense	**28,676**	24,500	30,595	52,693	85,224
Income before income taxes	**72,484**	49,823	85,782	75,682	42,037
Income before extraordinary item and cumulative effect of accounting change	**45,752**	29,558	57,182	50,646	30,559
Net income	**44,515**	29,558	50,113	50,646	30,559
Earnings per common share:					
Income before extraordinary item and cumulative effect of accounting change	**$ .46**	$ .30	$ .57	$ .56	$ .38
Net income	**$ .45**	$ .30	$ .50	$ .56	$ .38
Dividends per common share	**$ .05**	$ .05	$ .05	$ —	$ —
Other data:					
Operating margin	**16.5%**	11.9%	18.9%	23.2%	22.8%
EBITDA (1)	**$ 147,313**	$ 116,916	$ 155,693	$ 165,447	$ 163,323
Depreciation	**32,753**	28,737	25,610	23,247	22,308
Goodwill amortization	**13,400**	13,856	13,706	13,825	13,754
Capital expenditures and acquisitions	**31,098**	62,858	70,464	34,422	35,627

	1994	1993	1992	1991	1990
					December 31,
Balance Sheet data:					
Total working capital	**$ 121,803**	$ 78,263	$ 179,310	$ 94,715	$ 65,658
Total assets	**1,251,304**	1,243,315	1,270,418	1,151,175	1,140,592
Long-term debt	**377,106**	367,722	493,025	413,746	698,044
Stockholders' equity	**582,368**	534,012	516,999	483,797	154,621

(1) EBITDA represents earnings before income taxes, extraordinary item and cumulative effect of accounting change, increased by interest expense, depreciation and goodwill amortization.

Consolidated Statements of Income

(Thousands, except per share amounts)	Year Ended December 31, 1994	1993	1992
Net sales	$ 600,047	$ 548,252	$ 570,757
Costs and expenses:			
Cost of products sold	367,746	329,517	324,876
Selling, general and administrative	119,656	125,961	124,511
Provision for restructuring	–	13,827	–
Goodwill amortization	13,400	13,856	13,706
Total costs and expenses	500,802	483,161	463,093
Operating income	99,245	65,091	107,664
Interest expense	(28,676)	(24,500)	(30,595)
Equity in earnings of joint venture	2,034	2,051	5,996
Other income (expense), net	(119)	7,181	2,717
Income before income taxes, extraordinary item and cumulative effect of accounting change	72,484	49,823	85,782
Income taxes:			
Annual provision - current and deferred	(26,732)	(17,320)	(28,600)
Adjustment of deferred tax liability for change in tax rate	–	(2,945)	–
Income before extraordinary item and cumulative effect of accounting change	45,752	29,558	57,182
Extraordinary item, net of $733 income tax benefit	(1,237)	–	–
Cumulative effect of change in accounting for postretirement benefits other than pensions, net of $3,913 income tax benefit	–	–	(7,069)
Net income	$ 44,515	$ 29,558	$ 50,113
Earnings per common share:			
Income before extraordinary item and cumulative effect of accounting change	$ .46	$ .30	$ .57
Extraordinary item	(.01)	–	–
Cumulative effect of accounting change	–	–	(.07)
Net income	$ .45	$ .30	$ .50
Weighted average number of common shares outstanding	99,888	99,889	99,889

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Balance Sheets

(Thousands)	December 31, 1994	1993
ASSETS		
Current Assets:		
Cash	$ 20,127	$ 11,022
Investments in trading securities	42,737	71,764
Investments in available-for-sale securities	14,583	-
Accounts receivable, trade, less reserve of $2,292 and $2,313	55,585	41,656
Accounts receivable, other	9,977	7,650
Inventories	108,787	103,700
Other current assets	14,572	14,229
Total Current Assets	266,368	250,021
Property, plant and equipment, net	477,109	478,514
Excess of cost over net assets of businesses acquired, net of accumulated amortization of $78,602 and $65,202	443,681	457,084
Other assets	64,146	57,696
Total Assets	$ 1,251,304	$ 1,243,315
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$ -	$ 12,848
Current maturities of long-term debt	890	681
Loan payable to related party	41,341	66,787
Accounts payable	47,984	39,607
Accrued liabilities	46,625	45,388
Payable to related parties, net	3,336	3,583
Income taxes	4,389	2,864
Total Current Liabilities	144,565	171,758
Long-term debt less current maturities	285,397	367,722
Long-term note payable to related party	91,709	-
Deferred income taxes	72,955	92,511
Other liabilities	74,310	77,312
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $.01 par value per share; 20,000,000 shares authorized	-	-
Common stock, $.01 par value per share; 300,000,000 shares authorized: 99,888,646 shares issued	999	999
Additional paid-in capital	504,572	504,572
Treasury stock, at cost - 49,000 shares	(327)	-
Excess of purchase price over adjusted historical cost of predecessor company shares owned by GAF's stockholders	(63,483)	(63,483)
Retained earnings	132,259	92,738
Cumulative translation adjustment and other	8,348	(814)
Total Stockholders' Equity	582,368	534,012
Total Liabilities and Stockholders' Equity	$ 1,251,304	$ 1,243,315

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

(Thousands)	Year Ended December 31, 1994	1993	1992
Cash and cash equivalents, beginning of year	**$ 82,786**	$ 81,679	$ 10,085
Cash provided by operating activities:			
Net income	**44,515**	29,558	50,113
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**32,753**	28,737	25,610
Goodwill amortization	**13,400**	13,856	13,706
Cumulative effect of accounting change	**-**	–	7,069
Provision for restructuring	**-**	13,827	–
Deferred income taxes	**(16,494)**	(13,542)	6,844
(Increase) decrease in working capital items	**(12,010)**	2,868	(11,348)
(Increase) decrease in other assets	**(2,311)**	6,586	(850)
Increase (decrease) in other liabilities	**(2,090)**	1,847	(1,539)
Increase (decrease) in net payable to/receivable from related parties	**(247)**	10,234	(3,010)
Change in cumulative translation adjustment	**8,306**	(6,291)	(10,246)
Other, net	**(2,884)**	340	948
Net cash provided by operating activities	**62,938**	88,020	77,297
Cash used in investing activities:			
Capital expenditures and acquisitions	**(31,098)**	(62,858)	(70,464)
Designation of securities as available-for-sale	**(16,267)**	–	–
Net cash used in investing activities	**(47,365)**	(62,858)	(70,464)
Cash provided by (used in) financing activities:			
Proceeds (repayments) from sale of accounts receivable	**(1,052)**	24,284	–
Proceeds from termination of interest rate swap agreements	**–**	25,069	–
Increase (decrease) in short-term debt	**(12,848)**	10,637	2,106
Proceeds from debt financing	**–**	–	200,000
Repayments of long-term debt	**(83,048)**	(125,820)	(145,899)
Increase in loans from related party	**66,263**	46,317	20,470
Financing fees and expenses	**(421)**	(176)	(6,922)
Dividends	**(4,994)**	(4,994)	(4,994)
Repurchases of common stock	**(327)**	–	–
Other, net	**932**	628	–
Net cash provided by (used in) financing activities	**(35,495)**	(24,055)	64,761
Net change in cash and cash equivalents	**(19,922)**	1,107	71,594
Cash and cash equivalents, end of year	**$ 62,864**	$ 82,786	$ 81,679

(Thousands)	1994	1993	1992
	Year Ended December 31,		
Supplemental Cash Flow Information:			
Effect on cash from (increase) decrease in working capital items*:			
Accounts receivable	**$ (14,161)**	$ 2,499	$ 1,915
Inventories	**(5,087)**	4,306	(8,083)
Other current assets	**1,688**	1,239	4,899
Accounts payable	**8,187**	5,036	(2,746)
Accrued liabilities	**(4,162)**	(896)	(6,369)
Income taxes	**1,525**	(9,316)	(964)
Net effect on cash from (increase) decrease in working capital items	**$ (12,010)**	$ 2,868	$ (11,348)

* *Working capital items exclude cash, short-term investments, short-term debt and payables to related parties. Working capital acquired in connection with acquisitions is reflected within "Capital expenditures and acquisitions." The effects of reclassifications between noncurrent and current assets and liabilities are excluded from the amounts shown above. In addition, the (increase) decrease in accounts receivable shown above does not reflect the cash proceeds from the sale of the Company's domestic trade accounts receivable (see Note 4); such proceeds are reflected in cash from financing activities.*

	1994	1993	1992
Cash paid during the year for:			
Interest (net of amount capitalized)	**$ 31,140**	$ 23,969	$ 27,720
Income taxes (including taxes paid pursuant to the Tax Sharing Agreement)	**44,499**	38,703	24,753

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Stockholders' Equity

(Thousands)	Capital Stock and Additional Paid-in Capital	Treasury Stock at Cost	Cumulative Translation Adjustment and Other	Retained Earnings
December 31, 1991	$ 505,571	$ –	$ 18,654	$ 23,055
Net income	–	–	–	50,113
Translation adjustment	–	–	(10,246)	–
Dividends declared ($.05 per common share)	–	–	–	(4,994)
Adjustment of unfunded pension liability	–	–	(1,671)	–
December 31, 1992	$ 505,571	$ –	$ 6,737	$ 68,174
Net income	–	–	–	29,558
Translation adjustment	–	–	(6,291)	–
Dividends declared ($.05 per common share)	–	–	–	(4,994)
Adjustment of unfunded pension liability	–	–	(1,260)	–
December 31, 1993	$ 505,571	$ –	$ (814)	$ 92,738
Net income	–	–	–	44,515
Translation adjustment	–	–	8,306	–
Dividends declared ($.05 per common share)	–	–	–	(4,994)
Repurchases of common stock - 49,000 shares	–	(327)	–	–
Unrealized loss on available-for-sale securities, net of $621 income tax benefit	–	–	(1,063)	–
Adjustment of unfunded pension liability	–	–	1,919	–
December 31, 1994	$ 505,571	$ (327)	$ 8,348	$ 132,259

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Note
1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

International Specialty Products Inc. (the "Company") is an 81% owned subsidiary of GAF Chemicals Corporation ("GCC"), which is a wholly owned subsidiary of G Industries Corp. ("G Industries"), which in turn is a wholly owned subsidiary of G-I Holdings Inc. ("G-I Holdings"). G-I Holdings is a wholly owned subsidiary of GAF Corporation ("GAF").

Principles of Consolidation
All subsidiaries are consolidated and intercompany transactions have been eliminated.

Investment in Joint Venture
The Company's 50% ownership of GAF-Hüls Chemie GmbH ("GAF-Hüls"), a joint venture which operates a chemical manufacturing plant in Germany, is accounted for by the equity method. The Company's equity in the net assets of GAF-Hüls was $33.5 and $32.3 million as of December 31, 1994 and 1993, respectively, and is included in "Other assets". Dividends received by the Company from GAF-Hüls totaled $4.4, $5.4 and $7.2 million for 1994, 1993 and 1992, respectively.

Short-term Investments
Statement of Financial Accounting Standards ("SFAS") No. 115, which became effective January 1, 1994, requires that the Company carry its short-term investments at market value. For securities classified as "trading", unrealized gains and losses are reflected in income. For securities classified as "available-for-sale", unrealized gains and losses are included in a separate component of stockholders' equity, "Cumulative translation adjustment and other". The cumulative effect as of January 1, 1994 of adopting SFAS No. 115 was immaterial. Prior to 1994, such investments were carried at the lower of cost or market; at December 31, 1993, cost approximated market.

"Other income (expense), net", includes $6.2 million of net realized and unrealized gains on securities in 1994, and $10.9 and $2.8 million of net realized gains in 1993 and 1992, respectively. The determination of cost in computing realized gains and losses is based on the specific identification method.

During the fourth quarter of 1994, the Company redesignated an equity security as "available-for-sale", and recorded such security at its fair market value of $16 million at that time. Unrealized losses on such security subsequent to the date of redesignation were $1.1 million, net of related income tax benefit.

As of December 31, 1994 and 1993, the market value of the Company's equity securities held long was $57.3 and $71.8 million, respectively, and the Company had $13.1 and $7.9 million, respectively, of short positions in common stocks, based on market value. With respect to investments in securities, the Company is exposed to the risk of market loss.

The Company considers its short-term investments in equity and debt securities classified as "trading" to be cash equivalents.

Inventories
Inventories are stated at the lower of cost or market. The LIFO (last-in, first-out) method is utilized to determine cost for a substantial portion of the Company's domestic inventories. All other inventories are determined principally based on the FIFO (first-in, first-out) method.

Depreciation and Capitalized Interest
Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. Certain interest charges are capitalized during the period of construction as part of the cost of property, plant and equipment.

Foreign Exchange Contracts
The Company enters into a variety of foreign exchange instruments with off-balance-sheet risk in order to hedge a portion of both its borrowings denominated in foreign currency and its firm or anticipated purchase commitments related to the operations of foreign affiliates. Gains and losses on instruments used to hedge firm purchase commitments are deferred, and amortization is included in the measurement of the foreign currency transactions hedged. Gains and losses on instruments used to hedge anticipated purchases are recognized within "Other income (expense), net".

Forward contract agreements require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The market value of such contracts varies with changes in the market exchange rates. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the forward contract agreements. However, the Company does not anticipate nonperformance by the counterparties. The Company does not generally require collateral or other security to support these financial instruments.

As of December 31, 1994 and 1993, the equivalent dollar value of outstanding forward foreign exchange contracts was $110.3 and $70.5 million, respectively, and the amount of deferred gains and losses on such instruments was immaterial at each of such dates.

Foreign Currency Translation
Assets and liabilities of foreign subsidiaries, other than those located in highly inflationary countries, are

translated at year-end exchange rates. The effects of these translation adjustments are reported in a separate component of stockholders' equity, "Cumulative translation adjustment", which amounted to $10.6 and $2.3 million as of December 31, 1994 and 1993, respectively. Income and expenses are translated at average exchange rates prevailing during the year. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, and translation adjustments of subsidiaries in countries with highly inflationary economies, are included in "Other income (expense), net".

Excess of Purchase Price Over Historical Cost of Predecessor Company Shares

Stockholders' equity reflects a reduction of $63.5 million which arose from a management-led buyout in March 1989 of the predecessor company to GAF (the "Acquisition"), because certain members of the management group owned shares of the predecessor company's common stock before the Acquisition and own shares of GAF after the Acquisition, and as a result, the purchase method of accounting does not apply to their shares.

Excess of Cost Over Net Assets of Businesses Acquired ("Goodwill")

Goodwill, which arose principally from the Acquisition, is amortized on the straight-line method over a period of approximately 40 years. The Company believes that the goodwill is recoverable. The primary financial indicator to assess recoverability of goodwill is operating income before amortization of goodwill. The assessment is based on an undiscounted analysis.

Debt Issuance Costs

Debt issuance costs are amortized to expense over the life of the related debt.

Research and Development

Research and development costs are charged to operations as incurred and amounted to $20.3, $21.2 and $21.1 million for 1994, 1993 and 1992, respectively.

Note 2

PROVISION FOR RESTRUCTURING

In the fourth quarter of 1993, the Company recorded a pre-tax provision of $13.8 million, primarily related to the Company's cost reduction program announced in October 1993.

Note 3

INCOME TAXES

Income tax (provision) benefit consists of the following:

	Year Ended December 31,		
(Thousands)	**1994**	1993	1992
Federal:			
Current	**$ (36,055)**	$ (29,555)	$ (13,648)
Deferred	**16,051**	15,726	(6,844)
Total Federal	**(20,004)**	(13,829)	(20,492)
Foreign - current	**(6,019)**	(2,984)	(7,181)
State and local:			
Current	**(1,152)**	(1,268)	(927)
Deferred	**443**	761	–
Total state and local	**(709)**	(507)	(927)
Income tax provision	**$ (26,732)**	$ (17,320)	$ (28,600)

The differences between the income tax provision computed by applying the statutory Federal income tax rate to pre-tax income, and the income tax provision reflected in the Consolidated Statements of Income are as follows:

	Year Ended December 31,		
(Thousands)	**1994**	1993	1992
Statutory tax provision	**$ (25,369)**	$ (17,438)	$ (29,166)
Impact of:			
Foreign operations	**1,657**	3,116	3,589
Nondeductible good-will amortization	**(4,690)**	(4,849)	(4,660)
Percentage depletion	**1,684**	1,868	2,152
Other, net	**(14)**	(17)	(515)
Income tax provision	**$ (26,732)**	$ (17,320)	$ (28,600)

The components of the net deferred tax liability are as follows:

	December 31,	
(Thousands)	**1994**	1993
Deferred tax liabilities related to:		
Property, plant and equipment	**$ 103,294**	$ 107,998
Other	**2,582**	4,564
Total deferred tax liabilities	**105,876**	112,562
Deferred tax assets related to:		
Expenses not yet deducted for tax purposes	**(24,480)**	(11,931)
Deferred income	**(6,694)**	(8,276)
Foreign tax credits not yet utilized under the Tax Sharing Agreement	**(3,230)**	(2,910)
Other	**(4,660)**	(5,518)
Total deferred tax assets	**(39,064)**	(28,635)
Net deferred tax liability	**66,812**	83,927
Deferred tax assets reclassified to other current assets	**6,143**	8,584
Noncurrent deferred tax liability	**$ 72,955**	$ 92,511

G-I_EPA0008809

The Company and each of its domestic subsidiaries have entered into an agreement (the "Tax Sharing Agreement") with GAF and G Industries under which the Company is obligated to pay to G Industries an amount equal to those Federal income taxes the Company would have incurred if, subject to certain exceptions, the Company (on behalf of itself and its domestic subsidiaries) filed its own separate Federal income tax return. These exceptions include, among others, that the Company may utilize certain favorable tax attributes - i.e., losses, deductions and credits (except for a certain amount of foreign tax credits and, in general, net operating losses) - only at the time such attributes reduce the Federal income tax liability of GAF and its subsidiaries (the "GAF consolidated group"), and that the Company may carry back or carry forward its favorable tax attributes only after taking into account current tax attributes of the GAF consolidated group. In general, subject to the foregoing limitations, unused tax attributes will carry forward for use in reducing amounts payable by the Company to G Industries in future years. Subject to certain exceptions, actual payment for such attributes will be made by G Industries to the Company only when GAF receives an actual refund of tax from the Internal Revenue Service or, under certain circumstances, when GAF no longer owns more than 50% of the Company. Foreign tax credits not utilized by GAF will be refunded by G Industries to the Company, if such credits expire unutilized, upon the termination of the statute of limitations for the year of expiration. The net deferred tax liability is ultimately payable to G Industries.

Under certain circumstances, the provisions of the Tax Sharing Agreement result in the Company having a greater current tax liability thereunder than it would have had if it (and its domestic subsidiaries) had filed its own separate Federal income tax return. Moreover, under the Tax Sharing Agreement, the Company and each domestic subsidiary are responsible for any taxes that would be payable by reason of any adjustment to the tax returns of GAF or its subsidiaries, for years prior to adoption of the Tax Sharing Agreement, relating to the business or assets of the Company or any of its domestic subsidiaries. The Tax Sharing Agreement provides for analogous principles to be applied to any consolidated, combined or unitary state or local income taxes. Under the Tax Sharing Agreement, GAF makes all decisions with respect to all matters relating to taxes of the GAF consolidated group.

As members of the GAF consolidated group, the Company and each of its domestic subsidiaries are severally liable for all Federal income tax liabilities of every member of the GAF consolidated group, including tax liabilities not related to the business or assets of the Company and its domestic subsidiaries, although the Company has been indemnified by the other members of the GAF consolidated group for tax liabilities not related to the business or assets of the Company and its domestic subsidiaries.

In connection with Rhone-Poulenc Surfactants and Specialties, L.P. (the "Surfactants Partnership"), GCC has recorded a deferred tax liability in the amount of $131.4 million, which is reflected as a liability on the consolidated balance sheet of G-I Holdings. Payment of this liability (subject to reduction to reflect utilization of the tax attributes of GAF and its subsidiaries) is not expected earlier than 1999 under present circumstances. In certain circumstances, including if GCC were to dispose of property received by it in connection with its retirement from the Surfactants Partnership, GCC could be required to satisfy this liability earlier than 1999. G Industries has assumed, and G Industries and GAF have agreed to jointly and severally indemnify the Company against, such tax liability. The Company is a member of the same consolidated group as GCC and, subject to such indemnification, would be severally liable for any tax liability imposed in connection with the Surfactants Partnership should GCC, G Industries and GAF be unable to satisfy such liability. GAF has advised the Company that, in the event the tax liability becomes payable, GAF believes that it will have access to sufficient funds to satisfy this liability if so required. As of December 31, 1994, the stockholder's equity of G-I Holdings was a deficit of $15.8 million. See Note 10 for information regarding related party transactions.

Note 4

Sale of Accounts Receivable

In June 1993, the Company sold its domestic trade accounts receivable, without recourse, for a maximum of $25 million in cash to be made available to the Company based on eligible domestic receivables outstanding from time to time. The agreement, as extended, expires on June 30, 1995. The excess of accounts receivable sold over the net proceeds received is included in "Accounts receivable, other". The effective cost to the Company varies with commercial paper rates and is included in "Other income (expense), net".

Note 5

Inventories

At December 31, 1994 and 1993, $49.4 and $48 million, respectively, of domestic inventories were valued using the LIFO method. Inventories consist of the following:

G-I_EPA0008810

(Thousands)	December 31, 1994	1993
Finished goods	$ 69,748	$ 66,736
Work in process	21,082	17,959
Raw materials and supplies	19,900	19,850
Total	110,730	104,545
Less LIFO reserve	(1,943)	(845)
Inventories	$ 108,787	$ 103,700

Note 6

Property, Plant and Equipment

Property, plant and equipment consists of the following:

(Thousands)	December 31, 1994	1993
Land and land improvements	$ 69,109	$ 67,494
Buildings and fixtures	78,808	74,047
Machinery and equipment	422,795	370,442
Construction in progress	36,938	69,457
Total	607,650	581,440
Less accumulated depreciation	(130,541)	(102,926)
Property, plant and equipment, net	$ 477,109	$ 478,514

See Note 14 for information regarding capital leases.

Note 7

Long-Term Debt

Long-term debt consists of the following:

(Thousands)	December 31, 1994	1993
9% Senior Notes due 1999	$200,000	$ 200,000
Borrowings under revolving credit facility	45,000	127,250
Industrial revenue bond	1,830	2,400
Obligation on mortgaged property due 1999	38,125	38,125
Obligations under capital leases (Note 14)	1,332	628
Total long-term debt	286,287	368,403
Less current maturities	(890)	(681)
Long-term debt less current maturities	$285,397	$ 367,722

In connection with the issuance of the 9% Senior Notes due 1999 (the "9% Notes"), the Company entered into interest rate swap agreements ("swaps") with banks in an aggregate notional principal amount of $200 million. In 1993, the Company terminated the swaps, resulting in gains of $25.1 million, and entered into new swaps. The gains were deferred and are being amortized as a reduction of interest expense over the remaining life of the 9% Notes. As a result of the new swaps, the effective interest cost to the Company of the 9% Notes varies with LIBOR. Based on the fair value of the swaps at March 13, 1995 and December 31, 1993, the Company would have incurred losses of $16 and $3.7 million, respectively, representing the estimated amount that would be payable by the Company if the swaps were terminated at such dates. The estimated fair value of the 9% Notes as of March 13, 1995 and December 31, 1993 was $199.3 and $208.3 million, respectively.

In October 1994, the Company refinanced its $400 million revolving credit/letter of credit facility and entered into a new four-year $250 million revolving credit/letter of credit facility and a $150 million renewable one-year revolving credit facility (the "Credit Agreements"). Borrowings under the Credit Agreements bear interest at a floating rate (6.505% on December 31, 1994). In connection with the refinancing of the bank facility, the Company recorded an extraordinary charge of $1.2 million (after the related income tax benefit of $.7 million), representing the writeoff of deferred financing fees related to the previous bank credit agreement.

As of December 31, 1994, letters of credit aggregating $8.9 million were outstanding under the Credit Agreements. The Credit Agreements permit the Company to make loans to affiliates, and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to $60 million, of which $1.9 million had been utilized as of December 31, 1994.

Borrowings by the Company, including those under the Credit Agreements, are subject to the application of certain financial covenants contained in such agreements and in the indenture relating to the Senior Discount Notes due 1998 issued by G-I Holdings. As of December 31, 1994, the Company was in compliance with such covenants, and the application of such covenants would not have restricted the amounts available for borrowing under the Credit Agreements. The Credit Agreements and the indenture relating to the 9% Notes also limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. As of December 31, 1994, under the most restrictive of such limitations, the Company could have paid dividends in the aggregate amount of $36.9 million.

The Credit Agreements and the indenture relating to the 9% Notes contain additional affirmative and negative covenants, including restrictions on liens, investments, transactions with affiliates of the Company, sale-leaseback transactions, and restrictions on mergers and transfers of all or substantially all of the assets of the Company or its subsidiaries. The Credit

Agreements also provide for a default if there is a change in control (as defined) of the Company.

Neither the Credit Agreements nor the 9% Notes are secured by any assets of the Company or its subsidiaries. The indenture governing the 9% Notes provides, subject to certain exceptions, that, if the Company issues any debt secured by a lien on the stock of certain of its subsidiaries or upon any principal property, then such notes must be equally and ratably secured.

The Company believes that the fair value of its non-public indebtedness approximates the book value of such indebtedness, because the interest rates on such indebtedness are at floating short-term rates. The Credit Agreements also provide for adjustments to the interest rate if there is a change in the credit rating of the Company. With respect to the Company's publicly traded debt securities, the Company has obtained estimates of fair values from an independent source believed to be reliable.

The aggregate maturities of long-term debt as of December 31, 1994 for the next five years are as follows:

(Thousands)	
1995	$ 890
1996	915
1997	941
1998	137,025
1999	238,225

In the above table, 1998 maturities include the $91.7 million long-term note payable to G-I Holdings (see Note 10) and the $45 million of borrowings outstanding under the four-year Credit Agreement as of December 31, 1994, based on the expiration of such Credit Agreement in October 1998.

At December 31, 1994, the Company's foreign subsidiaries had unused short-term lines of credit aggregating $27.1 million. The weighted average interest rate on the Company's short-term borrowings as of December 31, 1994 and 1993 was 6.1% and 3.4%, respectively.

Note 8

BENEFIT PLANS

Eligible, full-time employees of the Company are covered by various benefit plans, as described below.

Defined Contribution Plan

The Company provides a defined contribution plan for eligible employees. The Company contributes up to 7% of participants' compensation. Beginning in 1993, the Company is also contributing fixed amounts, ranging from $50 to $750 per year depending on age, to the accounts of participants who are not covered by a Company-provided postretirement medical benefit plan. The aggregate contributions by the Company were $6.1, $5.2 and $3.4 million for 1994, 1993 and 1992, respectively.

Defined Benefit Plans

The Company provides a noncontributory defined benefit retirement plan for certain hourly employees (the "Hourly Retirement Plan"). Benefits under this plan are based on stated amounts for each year of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA.

The Company's net periodic pension cost for the Hourly Retirement Plan included the following components:

	Year Ended December 31,		
(Thousands)	**1994**	1993	1992
Service cost	**$ 363**	$ 395	$ 559
Interest cost	**1,253**	1,134	986
Actual (income) loss on plan assets	**(924)**	(985)	75
Net deferral and amortization of unrecognized prior service cost and actuarial (gains) losses	**343**	467	(601)
Net periodic pension cost	**$ 1,035**	$ 1,011	$ 1,019

The following table sets forth the funded status of the Hourly Retirement Plan:

	December 31,	
(Thousands)	**1994**	1993
Accumulated benefit obligation:		
Vested	**$ 13,460**	$ 15,030
Nonvested	**2,360**	2,010
Total accumulated benefit obligation	**$ 15,820**	$ 17,040
Projected benefit obligation	**$ 15,820**	$ 17,040
Fair value of plan assets, primarily listed stocks and U.S. Government securities	**(10,766)**	(9,759)
Projected benefit obligation in excess of plan assets	**5,054**	7,281
Unrecognized prior service cost	**(2,075)**	(1,934)
Unrecognized net loss	**(1,180)**	(3,099)
Unfunded accrued pension cost	**$ 1,799**	$ 2,248

The difference of $3,255,000 between the projected benefit obligation in excess of plan assets and the unfunded accrued pension cost as of December 31, 1994 has been recorded by the Company as a liability, offset by an intangible asset of $2,075,000 and a reduction of stockholders' equity of $1,180,000. The foregoing amounts will be amortized to expense over a period of approximately 15 years, as the Company continues to fund the benefits under the Hourly Retirement Plan.

In determining the projected benefit obligation, the weighted average assumed discount rate was 9% and 7.5% for 1994 and 1993, respectively. The expected long-term rate of return on assets, used in determining net periodic pension cost, was 9% for 1994 and 1993.

The Company also provides a nonqualified defined benefit retirement plan for certain key employees. Expense accrued for this plan was $1.2, $.8 and $.3 million for 1994, 1993 and 1992, respectively.

Postretirement Medical and Life Insurance
The Company provides certain medical and life insurance benefits for all retirees who were formerly hourly employees and for certain retirees who were formerly salaried employees. Certain hourly employees may become eligible for benefits if they reach retirement age while working for the Company.

During 1992, the postretirement medical and life insurance plans for salaried employees were terminated, with certain exceptions for salaried employees then over age 55 with 10 years of service. Retirees as of December 31, 1992 who were formerly salaried employees maintain life insurance coverage and receive a Company subsidy of up to $800 per year towards medical coverage, with certain exceptions. Subsequently, the Company negotiated the termination of postretirement medical and life insurance plans for hourly employees, with certain exceptions for hourly employees then over age 50 with 15 or more years of service.

Effective January 1, 1992, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". Under SFAS No. 106, the Company is required to accrue the estimated cost of retiree benefits, other than pensions, during covered employees' active service periods. The Company previously charged the cost of these benefits to expense as the benefits were paid. SFAS No. 106 has no effect on the Company's cash disbursements for retiree medical and life insurance benefits, as the Company funds these benefits as they become payable. The cumulative effect of adopting SFAS No. 106 was a one-time charge against earnings of $7.1 million ($.07 per share), after the related income tax benefit of $3.9 million.

The following table shows the components of the accrued postretirement health care cost obligation as of December 31, 1994 and 1993:

	December 31,	
(Thousands)	**1994**	1993
Accumulated postretirement benefit obligation:		
Retirees, dependents and beneficiaries eligible for benefits	**$ 8,038**	$ 9,031
Active employees fully eligible for benefits	**1,967**	3,019
Active employees not fully eligible for benefits	**107**	1,279
Total accumulated postretirement benefit obligation	**10,112**	13,329
Fair value of plan assets	**–**	–
Unrecognized prior service cost and unrecognized net gains (losses)	**1,027**	(2,495)
Accrued postretirement benefit obligation	**$ 11,139**	$ 10,834

The net periodic postretirement benefit cost included the following components:

	Year Ended December 31,		
(Thousands)	**1994**	1993	1992
Service cost	**$ 39**	$ 75	$ 133
Interest cost	**845**	1,012	915
Amortization of unrecognized prior service cost and net (gains)losses from earlier periods	**(25)**	–	–
Net periodic postretirement benefit cost	**$ 859**	$1,087	$1,048

For purposes of calculating the accumulated postretirement benefit obligation, the following assumptions were made. Retirees as of December 31, 1992 who were formerly salaried employees (with certain exceptions) were assumed to receive a Company subsidy of $800 per year. With respect to retirees who were formerly hourly employees, most such retirees are subject to a $5,000 per person lifetime maximum benefit. Subject to such lifetime maximum, a 15% and 9% annual rate of increase in the Company's per capita cost of providing medical benefits was assumed for 1995 for such retirees under and over age 65, respectively. To the extent that the lifetime maximum benefits have not been reached, the foregoing rates were assumed to decrease gradually to 7% and 6%, respectively, by the year 2003 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 9% and 7.5% for 1994 and 1993, respectively.

The health care cost trend rate assumption has an effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1994 by $790,000 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the year 1994 by $113,000.

Note 9

Stock Option Plan

The 1991 Incentive Plan for Key Employees (the "1991 Incentive Plan") authorizes the grant of options to purchase a maximum of 3,000,000 shares of the Company's common stock. The exercise price of options granted must be at least equal to the fair market value of such shares on the date of grant. The options become exercisable 20% per year on the first through the fifth anniversaries of the date of grant.

In 1993, the Company extended an offer to holders of outstanding stock options with exercise prices ranging from $7.25 to $14.00 to exchange their existing options for a lesser number of new options with an exercise price of $6.75.

The following is a summary of transactions pertaining to the 1991 Incentive Plan:

(Number of Shares)	1994	1993	1992
Outstanding January 1	**1,228,964**	1,883,649	836,248
Granted	**1,321,020**	825,509	1,064,322
Exercised	–	–	–
Exchanged	–	(1,177,518)	–
Terminated	**(350,268)**	(302,676)	(16,921)
Outstanding December 31	**2,199,716**	1,228,964	1,883,649
At December 31:			
Exercisable	**332,763**	151,118	164,238
Available for grant	**800,284**	1,771,036	1,116,351
Option Price Range Per Share:			
Outstanding	**$ 6.125- $ 14.00**	$ 6.75- $ 14.00	$ 11.625- $ 14.00

As of December 31, 1994, vested options with exercise prices below market price were exercisable for 126,631 shares. In order to remain a member of the GAF consolidated tax group, the Company may not issue more than an aggregate of approximately 785,000 unissued shares of common stock. The Company intends to purchase shares on the open market (and/or issue such additional 785,000 shares) to satisfy options which are exercised. Any shares purchased by the Company on the open market would be issued to option holders, upon exercise of options, at the respective exercise prices. Any such purchases of shares by the Company on the open market would be subject to applicable legal requirements and satisfaction of covenant tests under the Company's debt instruments. The Company believes that it would be able to comply with such restrictions, and as of December 31, 1994, the Company would have been permitted to purchase such shares under its debt instruments. Accordingly, no compensation expense has been recorded in connection with stock options.

Note 10

Related Party Transactions

Building Materials Corporation of America ("BMCA"), an indirect subsidiary of GAF, acquired the operating assets and certain liabilities of GAF Building Materials Corporation, an indirect subsidiary of GAF, as of January 31, 1994. The information below retroactively reflects the formation of BMCA as of the beginning of the periods presented. BMCA has been for many years a major customer for the Company's mineral products. In 1994, BMCA purchased approximately $42.5 million of mineral products from the Company, representing approximately 7% of the Company's total net sales and approximately 52% of the Company's net sales of mineral products. Such sales by the Company to BMCA totaled $43.5 and $41.4 million for 1993 and 1992, respectively. BMCA purchases 100% of its colored roofing granule requirements from the Company (except for the requirements of its California roofing plant which are supplied by a third party). Through December 31, 1993, sales to BMCA were made under a supply contract which expired on that date. Since that time, BMCA continued to purchase from the Company such requirements and, effective as of January 1, 1995, the Company and BMCA renewed that agreement for one year, subject to annual renewal unless terminated by the Company or BMCA.

The receivable from BMCA for sales of mineral products as of December 31, 1994 and 1993 was $2.6 and $2.4 million, respectively.

Pursuant to a Management Agreement, which expires at the end of 1995, the Company provides certain general management, administrative, and facilities services to certain of its affiliates and its parents, including BMCA, GAF Broadcasting Company, Inc., G-I Holdings and GCC. Charges by the Company for providing such services aggregated $4.4, $4.8 and $4.5 million for 1994, 1993 and 1992, respectively, and are reflected as reductions of "Selling, general and administrative" expense. Such charges were increased to an annual rate of $4.5 million, effective January 1, 1995, and can be further adjusted by amendment if there is a substantial change in the cost to the Company of providing such services. In addition to the management services charge, BMCA paid approximately $.7 million to the Company in each of 1994, 1993 and 1992, primarily for telecommunications and information services, and G-I Holdings and BMCA paid an aggregate of approximately $.3 million in 1994 to the Company for legal services, which in each case were not encompassed within the Management Agreement.

See Note 3 for a discussion of the Tax Sharing Agreement.

Under the terms of the Credit Agreements, the Company or any of its subsidiaries are permitted to make loans to affiliates, and provide letters of credit issued for the benefit of such affiliates, up to an aggregate amount not to exceed $60 million outstanding at any time (see Note 7).

The Company and its subsidiaries also borrow from G-I Holdings and its subsidiaries at the same rates available to the Company under the Credit Agreements. Such borrowings outstanding at December 31, 1994 and 1993 comprised $41.3 and $66.8 million, respectively, classified as current, and $91.7 million as of December 31, 1994, classified as long-term.

Certain executive officers of the Company were granted stock appreciation rights in 1993 and 1994 relating to GAF's common stock. Compensation expense in connection with such stock appreciation rights is reflected in G-I Holdings' operating expense and was immaterial for 1993 and 1994.

Note 11

Business Segment Information

	Year Ended December 31,		
(Millions)	**1994**	1993	1992
Net sales:			
Specialty Derivative Chemicals	**$ 482.4**	$ 434.5	$ 435.5
Mineral Products [1]	**81.1**	81.3	101.9
Other	**36.5**	32.5	33.4
Net sales	**$ 600.0**	$ 548.3	$ 570.8
Operating income:			
Specialty Derivative Chemicals	**$ 79.9**	$ 59.8	$ 78.1
Mineral Products	**14.6**	16.9	27.6
Other	**4.7**	2.2	2.0
Provision for restructuring [2]	**–**	(13.8)	–
Total operating income	**$ 99.2**	$ 65.1	$ 107.7
Identifiable assets:			
Specialty Derivative Chemicals	**$ 986.3**	$ 972.6	$ 1,008.1
Mineral Products	**161.2**	161.5	164.6
Other	**103.8**	109.2	97.7
Total assets	**$ 1,251.3**	$ 1,243.3	$ 1,270.4
Capital expenditures and acquisitions:			
Specialty Derivative Chemicals	**$ 22.5**	$ 54.5	$ 63.0
Mineral Products	**8.3**	8.3	7.4
Other	**0.3**	0.1	0.1
Total	**$ 31.1**	$ 62.9	$ 70.5
Depreciation:			
Specialty Derivative Chemicals	**$ 25.2**	$ 22.1	$ 19.7
Mineral Products	**6.8**	6.2	5.5
Other	**0.8**	0.4	0.4
Total	**$ 32.8**	$ 28.7	$ 25.6

(1) Includes sales to BMCA of $42.5, $43.5 and $41.4 million for 1994, 1993 and 1992, respectively.
(2) On a segment basis, the provision for restructuring (see Note 2) relates to Specialty Derivative Chemicals ($11.8 million), Mineral Products ($.3 million), and Other ($1.7 million).

Note 12

GEOGRAPHIC INFORMATION

Results set forth below for foreign operations represent sales and operating income of foreign-based subsidiaries.

	Year Ended December 31,		
(Millions)	**1994**	1993	1992
Net sales:			
Domestic operations (1)	**$ 306.4**	$ 286.8	$ 304.5
Europe (2)	**187.7**	167.7	188.1
Asia-Pacific	**76.6**	69.3	57.0
Other foreign operations	**29.3**	24.5	21.2
Net sales	**$ 600.0**	$ 548.3	$ 570.8
Operating income:			
Domestic operations	**$ 41.3**	$ 26.9	$ 52.1
Europe	**37.5**	35.7	43.6
Asia-Pacific	**16.2**	13.2	9.8
Other foreign operations	**4.2**	3.1	2.2
Provision for restructuring (3)	**-**	(13.8)	-
Operating income	**99.2**	65.1	107.7
Equity in earnings of joint venture	**2.0**	2.1	6.0
Interest expense and other, net	**(28.7)**	(17.4)	(27.9)
Income before income taxes, extraordinary item and cumulative effect of accounting change	**$ 72.5**	$ 49.8	$ 85.8
Identifiable assets:			
Domestic operations	**$ 1,084.6**	$ 1,091.2	$ 1,112.4
Europe (4)	**128.9**	118.5	125.6
Asia-Pacific	**28.5**	24.9	20.6
Other foreign operations	**9.3**	8.7	11.8
Total assets	**$ 1,251.3**	$ 1,243.3	$ 1,270.4

(1) Net sales-domestic operations excludes sales by the Company's domestic subsidiaries to foreign-based subsidiaries of $135.1, $113.6 and $118.5 million for 1994, 1993 and 1992, respectively.
(2) Net sales-Europe excludes sales by the Company's European subsidiaries to domestic and other foreign-based subsidiaries of $12.8, $7.2 and $13.1 million for 1994, 1993 and 1992, respectively.
(3) On a geographic basis, the provision for restructuring (see Note 2) relates to domestic operations ($7.6 million), Europe ($5.7 million), Asia-Pacific ($.4 million), and other foreign operations ($.1 million).
(4) Identifiable assets-Europe include the Company's 50% ownership of GAF-Hüls.

Note 13

Acquisitions

In March 1992, the Company acquired the Van Dyk worldwide personal care business ("Van Dyk"), and in February 1993, the Company acquired the MTM fine chemicals business. The acquisitions were accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair values of the identifiable net assets acquired. The results of such acquisitions, including Van Dyk sales of $22.5 million for the year 1992, are included from the dates of acquisition; the effects were not material to consolidated operations.

Note 14

Commitments and Contingencies

GAF, G-I Holdings, G Industries and GCC are presently dependent upon the earnings and cash flow of their subsidiaries, including the Company and BMCA, in order to satisfy their obligations, including as of December 31, 1994, $457.6 million of G-I Holdings' 11.125% Senior Discount Notes due October 1998, the asbestos liability discussed below, and approximately $129.5 million of various tax and other liabilities, including tax liabilities relating to the Surfactants Partnership (discussed in Note 3). Of such obligations, $93.1 million (net of estimated insurance recoveries of $62.8 million) is estimated to be payable during 1995. GAF has advised the Company that it expects to obtain funds to satisfy such obligations from, among other things, refinancings of debt, dividends and loans from subsidiaries, as to which there are restrictions under the Company's Credit Agreements, the indenture relating to the Company's 9% Notes and the indenture relating to BMCA's 11 3/4% Senior Deferred Coupon Notes due 2004, and from payments pursuant to Tax Sharing Agreements between GAF and its subsidiaries. In the event that such parent corporations should become unable to meet their cash requirements from sources other than the Company, they might take various actions, including, among other things, seeking to cause the Company to make distributions to stockholders by means of dividends or otherwise, to make loans to its parent corporations, or cause GCC to sell shares of the Company's common stock. The Company does not believe that the dependence of its parent corporations on the cash flows of their subsidiaries should have a material adverse effect on the operations, liquidity or capital resources of the Company.

Asbestos Litigation Against GAF

GAF has advised the Company that, as of December 31, 1994, GAF had been named as a defendant in approximately 48,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber, having resolved approximately 182,000 other lawsuits involving similar claims, and as a co-defendant in 16 pending lawsuits alleging economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises.

The reserve of GAF and G-I Holdings for asbestos bodily injury claims, as of December 31, 1994, was approximately $458.3 million (before estimated present value of recoveries from products liability insurance policies of approximately $212.9 million and related deferred tax benefits of approximately $92.2 million). GAF and G-I Holdings have advised the Company that certain components of the asbestos liability and the related insurance recoveries have been reflected on a discounted basis in their financial statements, and that the aggregate undiscounted liability, as of December 31, 1994, before estimated recoveries from products liability insurance policies, was $518 million. As of such date, G-I Holdings' stockholder's equity was a deficit of $15.8 million.

GAF's and G-I Holdings' estimate of liability for asbestos claims is based on the pending settlement of future asbestos bodily injury claims (described below) becoming effective and on assumptions which relate, among other things, to the number of new cases filed, the cost of resolving (either by settlement or litigation or through the mechanism established by the Settlement) pending and future claims, the realization of related tax benefits, the favorable resolution of pending litigation against certain insurance companies and the amount of recoveries from various insurance companies.

On January 15, 1993, the members of the Center for Claims Resolution (the "CCR"), a non-profit organization of asbestos defendants including GAF, entered into a class-action settlement agreement (the "Settlement") to resolve all future asbestos bodily injury claims (other than claims of those persons who "opted out" of the class by January 24, 1994) against GAF and other members of the CCR. The Settlement, if effective, would operate to limit GAF's liability for future asbestos claims to persons who do not "opt out" of the Settlement by placing a dollar limit on awards and a limit on the number of claims that will be paid to such persons in any one year over the first ten years of the Settlement. On August 16, 1994, the United States District Court in Philadelphia approved the Settlement, holding that the terms of the Settlement are fair to the class as a whole. The favorable resolution of certain insurance-related litigation is a condition to the effectiveness of the Settlement. It is anticipated that at least some of those who objected to the Settlement will appeal this decision. While it is impossible to predict with certainty the outcome of any appeal, GAF has advised the Company that it believes that the decision will be affirmed.

GAF and G-I Holdings have advised the Company that they believe that their reserves, which reflect the discounting of a portion of the liabilities, adequately reflect their asbestos-related liabilities. GAF and G-I Holdings have also advised the Company that they anticipate that substantially all of the payments in connection with GAF's and G-I Holdings' liability relating to asbestos bodily injury claims will be made by the end of the year 2004, and that, while they are unable to estimate the amount of liability with respect to claims to be resolved after such period, they believe that GAF will resolve, prior to that time, substantially all the court cases currently pending against it, and that it will further resolve substantially all the claims filed under the Settlement on a relatively current basis, so that the number of claims pending against GAF at the end of such period will be substantially diminished from current levels. GAF and G-I Holdings have advised the Company that, as a result of these and other factors, they believe that the resolution of any claims after such period will not have a material adverse effect on their respective financial positions or results of operations.

Neither the Company nor the assets or operations of the Company, which was operated as a division of a corporate predecessor of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. The Company believes that it should have no legal responsibility for damages in connection with asbestos-related claims, but the Company cannot predict whether any such claims will be asserted against it or the outcome of any litigation related to such claims. In addition, should GAF be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF, including its indirect holdings of common stock of the Company, and such enforcement could result in a change of control of the Company.

Environmental Litigation

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters ("Environmental Claims") in which recovery is sought for the cost of cleanup of contaminated sites, a number of which are in the early stages or have been dormant for protracted periods.

At most sites, the Company anticipates that liability will be apportioned among the companies found to be responsible for the presence of hazardous substances at the site. Although it is difficult to predict the ultimate resolution of these claims, based on the Company's evaluation of the financial responsibility of the parties involved and their insurers, relevant legal issues and cost sharing arrangements now in place, the Company estimates that its liability in respect of all Environmental Claims, as of December 31, 1994, will be approximately $19.5 million. After a reduction for anticipated insurance recoveries (discussed below) of $7 million, the Company estimates that its net liability will be approximately $12.5 million. Beginning in 1994, the gross environmental liability is included within "Accrued liabilities" and "Other liabilities", and the insurance recoveries are included within "Other current assets" and "Other assets".

In the opinion of the Company's management, the resolution of the Environmental Claims should not be material to the business, liquidity or financial position of the Company. However, adverse decisions or events, particularly as to the merits of the Company's factual and legal defenses to liability and the financial responsibility of the other parties involved at each site, could cause the Company to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

After considering the relevant legal issues and other pertinent factors, the Company believes that it is probable that it will receive the anticipated insurance recoveries and it may receive insurance recoveries substantially in excess of the amounts described above. The Company believes it is entitled to substantially full defense and indemnity under its insurance policies for most Environmental Claims and has commenced an action seeking a declaration of the obligations of insurers. The Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for such claims. While the Company believes in the merits of the case, there can be no assurance that the Company will prevail in its efforts to obtain the anticipated insurance recoveries.

In June 1989, the Company entered into a Consent Order with the New Jersey Department of Environmental Protection (NJDEP) requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently $7.5 million) to guarantee the Company's performance. In April 1993, NJDEP issued orders which require the prevention of discharge of contaminated groundwater and stormwater from the site and the elimination of other potential exposure concerns. The Company believes, although there can be no assurance, that, taking into account its plans for development of the site, it can comply with the NJDEP order at a cost of no more than $7.5 million (in connection with which the Company anticipates insurance recoveries of approximately $5 million).

Lease Commitments
Leases for certain equipment at two of the Company's mineral products plants are accounted for as capital leases and are included in "Property, plant and equipment, net", at December 31, 1994 in the amount of $1.3 million. The Company also has operating leases for transportation, production and data processing equipment and for various buildings. Rental expense on operating leases was $7.4, $7 and $6 million for 1994, 1993 and 1992, respectively. Future minimum lease payments for properties which were held under long-term noncancelable leases as of December 31, 1994 were as follows:

(Thousands)	Capital Leases	Operating Leases
1995	$ 389	$ 2,478
1996	389	1,716
1997	389	1,007
1998	348	398
1999	54	193
Later years	–	1,394
Total minimum payments	1,569	$ 7,186
Less interest included above	(237)	
Present value of net minimum lease payments	$ 1,332	

Other Commitments
The Company intends to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. While the originally anticipated commencement date of the European project has been deferred because of the fact that the Company has been able to implement during the past year cost efficient capacity expansions at its existing manufacturing facilities, the Company intends to proceed with the project as soon as circumstances warrant after taking into account additional opportunities for expansion of existing capacity, end-use demand, and other relevant factors. Costs capitalized to date related to this project are included in "Construction in progress". The Company anticipates utilizing internally generated funds, existing credit facilities and/or independent financing to fund the cost of the project.

The Company has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, which designation has been appealed to the Courts by the City of Linden. The Company estimates that the cost of constructing the facility will be approximately $100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources.

Report of Independent Public Accountants

To International Specialty Products Inc.:

We have audited the accompanying consolidated balance sheets of International Specialty Products Inc. (a Delaware corporation and an 80.6% owned subsidiary of GAF Chemicals Corporation) and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Specialty Products Inc. and subsidiaries as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Note 8 to the consolidated financial statements, effective January 1, 1992, the Company changed its method of accounting for postretirement benefits other than pensions.

Arthur Andersen LLP

Arthur Andersen LLP
Roseland, New Jersey
March 13, 1995

Quarterly Financial Data (unaudited)

	1994 By Quarter				1993 By Quarter			
(Millions, except per share amounts)	**First**	**Second**	**Third**	**Fourth**	First	Second	Third	Fourth
Net sales	$ 147.5	$ 155.8	$ 149.2	$ 147.5	$ 146.2	$ 148.2	$ 129.3	$ 124.6
Cost of products sold	90.3	93.2	92.5	91.7	89.4	83.1	77.2	79.8
Gross profit	$ 57.2	$ 62.6	$ 56.7	$ 55.8	$ 56.8	$ 65.1	$ 52.1	$ 44.8
Operating income (loss)(1)	$ 24.8	$ 29.7	$ 22.8	$ 21.9	$ 21.4	$ 28.3	$ 17.7	$ (2.3)
Income (loss) before income taxes and extraordinary item	$ 16.5	$ 23.6	$ 22.7	$ 9.7	$ 17.6	$ 22.5	$ 15.1	$ (5.4)
Income taxes:								
Annual (provision) benefit	(6.2)	(8.8)	(8.4)	(3.4)	(6.1)	(7.9)	(5.3)	2.0
Adjustment of deferred tax liability for change in tax rate	–	–	–	–	–	–	(2.9)	–
Income (loss) before extraordinary item	10.3	14.8	14.3	6.3	11.5	14.6	6.9	(3.4)
Extraordinary item, net of related income tax benefit	–	–	(1.2)	–	–	–	–	–
Net income (loss)	$ 10.3	$ 14.8	$ 13.1	$ 6.3	$ 11.5	$ 14.6	$ 6.9	$ (3.4)
Earnings per common share(2):								
Income (loss) before extraordinary item	$ .10	$ .15	$ .14	$ .06	$ .12	$ .15	$ .07	$ (.03)
Extraordinary item	–	–	(.01)	–	–	–	–	–
Net income (loss)	$ .10	$ .15	$ .13	$ .06	$ .12	$ .15	$ .07	$ (.03)

(1) The Company recorded a $13.8 million pre-tax provision for restructuring in the fourth quarter of 1993.

(2) Earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the quarters.

Market For Common Stock

The following information pertains to the Company's common stock, which is traded on the New York Stock Exchange. As of March 15, 1995, there were 360 holders of record of the Company's outstanding common stock.

	1994 By Quarter				1993 By Quarter			
(Dollars)	**First**	**Second**	**Third**	**Fourth**	First	Second	Third	Fourth
Price Range of Common Stock:								
High	$ 7	$ 7	$ 8 1/2	$ 8	$ 9 3/4	$ 7 5/8	$ 7 1/2	$ 7 3/8
Low	5 3/8	5 7/8	6 3/8	6	5 3/4	6 1/8	6 1/2	6 1/4
Cash Dividends Per Common Share	–	$ .025	–	$ .025	–	$ .025	–	$ .025

The Company currently pays a semi-annual dividend of 2.5 cents per share. The declaration and payment of dividends is at the discretion of the Board of Directors of the Company. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 7 to Consolidated Financial Statements for information regarding restrictions on the payment of dividends. The timing and amount of dividends paid is dependent upon, among other things, the Company's results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by the Board of Directors. Accordingly, there can be no assurance that the Board of Directors will declare and pay dividends or as to the amounts thereof.

BOARD OF DIRECTORS

Mark A. Buckstein
Executive Vice President,
General Counsel and Secretary,
International Specialty
Products Inc.

Charles M. Diker
Chairman of the Board,
Cantel Industries Inc.

Carl R. Eckardt
President and
Chief Operating Officer,
International Specialty
Products Inc.

Harrison J. Goldin
Partner,
Goldin Associates, L.P.

Samuel J. Heyman
Chairman of the Board and
Chief Executive Officer,
International Specialty
Products Inc.

Sanford Kaplan
Private Investor

Burton J. Manning
Chairman and
Chief Executive Officer,
J. Walter Thompson Company

CORPORATE OFFICERS

Samuel J. Heyman
Chairman of the Board and
Chief Executive Officer

Carl R. Eckardt
President and
Chief Operating Officer

Mark A. Buckstein
Executive Vice President,
General Counsel and Secretary

James J. Conway
Senior Vice President and
General Manager,
Specialty Derivative Chemicals

Richard B. Olsen
Senior Vice President and
Chief Financial Officer

James P. Rogers
Senior Vice President,
Finance

James J. Strupp
Senior Vice President,
Human Resources

Paul J. Aronson
Vice President,
Taxes

Arthur Dresner
Vice President,
Corporate Development

Kathleen M. Guinnessey
Vice President,
Treasurer

Mark A. Presto
Vice President,
Corporate Finance

Jonathan H. Stern
Vice President,
Controller

International Specialty Products Facilities

UNITED STATES

MANUFACTURING FACILITIES
Alabama, Huntsville
Kentucky, Calvert City
Missouri, Annapolis
New Jersey, Belleville
New Jersey, Chatham
Ohio, Columbus
Pennsylvania, Blue Ridge Summit
Tennessee, Memphis
Texas, Seadrift
Texas, Texas City
Wisconsin, Pembine

RESEARCH LABORATORIES
Alabama, Huntsville
Kentucky, Calvert City
Maryland, Hagerstown
New Jersey, Belleville
New Jersey, Chatham
New Jersey, Wayne
Ohio, Columbus
Texas, Texas City

SALES OFFICES
California, Sherman Oaks
Illinois, Lombard
Maryland, Hagerstown
New Jersey, Belleville
New Jersey, Bridgewater
New Jersey, Chatham
New Jersey, Wayne
North Carolina, Charlotte
Ohio, Columbus
South Carolina, Greenville
Tennessee, Memphis
Texas, Dallas

INTERNATIONAL

MANUFACTURING FACILITIES
Belgium, Sint-Niklaas
Brazil, Sao Paulo
Canada, Mississauga, Ontario
Canada, Oakville, Ontario
Singapore

RESEARCH LABORATORIES
Germany, Cologne
Great Britain, Guildford
Singapore

SALES OFFICES
Argentina, Buenos Aires
Australia, Box Hill, Victoria
Australia, Silverwater, N.S.W.
Austria, Vienna
Belgium, Sint-Niklaas
Brazil, Sao Paulo
Canada, Mississauga, Ontario
Canada, Ville St. Laurent, Quebec
China, Beijing
China, Guangzhou
China, Shanghai
Czech Republic, Prague
Denmark, Soborg
Finland, Kuaniainen
France, Paris
Germany, Frechen
Great Britain, Manchester
Hong Kong
Hungary, Budapest
India, Bombay
Ireland, Dublin
Italy, Milan
Japan, Osaka
Japan, Tokyo
Korea, Seoul
Mexico, Mexico City
Netherlands, Schiedam
New Zealand, Otahuhu
Norway, Oslo
Poland, Warsaw
Puerto Rico, Rio Piedras
Russia, Moscow
Singapore
Spain, Barcelona
Sweden, Arsta
Switzerland, Baar
Taiwan, Taipei
Thailand, Bangkok
Turkey, Istanbul
Venezuela, Caracas

AFFILIATE
GAF-Hüls Chemie GmbH
Germany, Marl

Shareholder Information

ANNUAL MEETING

The 1995 Annual Meeting of Shareholders is scheduled to be held at 10 a.m., Monday, May 15, at:
The Bank of New York
48 Wall Street, 11th Floor
New York, New York 10286

FORM 10-K

A copy of the Company's Annual Report on Form 10-K (including financial statements and schedules), as filed with the Securities and Exchange Commission, may be obtained free of charge by writing to:
International Specialty Products Inc.
Shareholder Relations Department
1361 Alps Road
Wayne, New Jersey 07470

STOCK TRANSFER AGENT AND REGISTRAR

The Bank of New York
101 Barclay Street
New York, New York 10007
Telephone (800) 524-4458

INVESTOR RELATIONS

Inquiries should be directed to:
Kathleen M. Guinnessey
Vice President and Treasurer
International Specialty Products Inc.
1361 Alps Road
Wayne, New Jersey 07470
Telephone (201) 628-3463

International Specialty Products Inc. common stock is listed on the New York Stock Exchange (symbol: "ISP").